RICHMOND HOUSE
INVESTMENT MANAGEMENT

Investment commentary

November 2022

Market overview

After a strong October, developed market equities continued to rally in November, rising a further 7%. The main catalyst was the greater than expected fall in US inflation (down from over 8% to 7.7%), which led the market to believe that inflation in the US may have peaked and that the US Federal Reserve may be able to slow, and potentially end, the cycle of rate rises earlier than anticipated.

Evidence continues to suggest that supply chain disruption globally is alleviating. Within the US, falling prices in areas such as goods and autos were a key driver in this fall in inflation although the picture does remain mixed and inflation in areas such as services remains more stubborn.

In contrast to the US, inflation numbers coming out of the eurozone and the UK hit new highs as rising food and energy prices continued to impact. Economic data in both regions improved slightly from very depressed levels however the outlook remains weak. In the UK the Office for Budget Responsibility ('OBR') issued forecasts for a 1.5% decline in GDP for next year and for a 7% fall in real (i.e. relative to inflation) incomes. There was brighter news in terms of the energy crisis in Europe where a combination of mild weather and good progress being made in terms of securing new and alternative supplies of gas have led to storage levels for the winter being almost fully replenished.

Emerging market equities rallied even more strongly than developed indices in November, rising close to 15%. Sentiment was buoyed by a modest relaxation in the covid restrictions in China and the anticipation of potential further loosening of restrictions. Economic data in China was relatively weak, pointing to a continued economic slowdown that has prompted authorities to ease policy and provide some targeted support measures, which has also been well received by markets.

November saw further 75 basis point rate hikes in the UK and US, taking rates to 3% and 4% respectively. Despite this, the less hawkish sentiment that perpetuated over the month drove global bonds up nearly 5%.

The recent recovery of sterling has continued as a level of calm has returned to UK politics and financial markets.

Strategy positioning

All strategies continue to remain towards the upper end of their corresponding Dynamic Planner risk profile. Equities are our preferred asset class and we are maintaining a full exposure across all strategies. Our expectation of modest but positive global economic growth over the next 2-3 years, the resilience to-date of corporate earnings and undemanding valuations provide a supportive background for risk assets in our view.

Our equity exposure is targeted to areas and sectors that should provide superior levels of growth and to areas that should prove resilient to any periods of poor market sentiment. This points us towards the US and Asia and to sectors such as global infrastructure and renewable energy.

In addition to equities, attractive opportunities have also appeared in both government and corporate bonds and, after a tumultuous period of returns so far this year, we expect a more 'normal' return profile from fixed interest assets going forward.

As ever, we remain very mindful of downside risks and are retaining exposure to low risk, uncorrelated strategies in the alternatives space that have provided excellent diversification benefits so far this year.

Risk warnings